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SUBJECT: GUBERNATORIAL MACHINATIONS AND BANK PANIC IN Khabarovsk

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Summary

1. Thousands of customers in Khabarovsk began a run on the Dalkobank, withdrawing almost 2.4 billion rubles in cash -- four times the usual monthly amount. The withdrawals between October 8 and 12 were fueled by rumors of the bank's impending collapse. The rumors appear to have been started by corporate raiders hoping to create a rapid decrease in the bank's value before initiating a hostile takeover.

The Panic Begins

2. Thousands of Dalkobank customers in Khabarovsk began a run on the bank, withdrawing 2.4 billion rubles in cash -- quadruple to usual amount -- between October 8 and 12. Bank customers began the frenzied withdrawals after rumors circulated around Khabarovsk of the impending failure of the bank. The Central Bank of Russia stepped in to assist Dalkobank by providing liquidity to meet the cash demand of customers. Dalkobank management extended banking hours to process customers' requests, and offered increased interest rates to customers who kept their funds at the bank. Bank president Andrey Shlyakhovoy gave a press-conference to calm the public's nerves, and by October 13 the run ceased.

This is How Rumors Get Started

3. On October 21 Shlyakhovoy gave his explanation for the incident to the media, stating that the rumors of the bank's troubles had been started by unnamed corporate raiders planning to target the bank in a hostile takeover bid. He also asserted that "some banks in Western Russia have already been targeted in such attacks."

4. Aleksandr Levintal, the Head of Khabarovskiy Kray's Economic Development and Trade Department, engaged in some damage control as well, assuring Khabarovsk inhabitants that the bank is sound and that the Khabarovsk banking system is sufficiently isolated from world banking activity, and therefore less susceptible to global financial problems. He explained "our banks do not receive loans from abroad and do not invest in stock markets."

5. According to a journalist contact in Khabarovsk, the rumors that caused the panic were indeed spread by corporate raiders from VTB 24 Bank, a subsidiary of Vneshtorgbank, as the opening salvo in its takeover of Dalkobank. Representatives of other Khabarovsk banks have refrained from commenting on the situation, though some did acknowledge that the rumors about the bank were clearly deliberate disinformation.

Gubernatorial Machinations?

¶6. Governor Viktor Ishayev has an involved history with both Dalkombank and Vneshtorgbank. A consulate contact in Khabarovsk told consulate staff that the Governor has held a grudge against Dalkombank leadership ever since it refused to provide financial assistance to Dalavia, a Khabarovsk-based airline that recently filed for bankruptcy (reftel). Ishayev subsequently ordered all official Kray bank accounts transferred from Dalkombank to Vneshtorgbank, supposedly as punishment. This move provided at least a plausible foundation for the rumors of impending financial doom for the bank.

¶7. During the panic, Governor Ishayev conspicuously refrained from making public statements in support of the bank. This is in contrast to a number of incidents in the past when he actively shielded local businesses against aggressive takeovers by Moscow-based business concerns. Observers point out the precedence of Artel Amur Gold Mining -- when Ishayev did not step up to defend the local company in January 2007, raiders successfully took the company over.

Comment

¶8. Though there is no confirmed connection between the governor and the rumor-induced panic on Dalkombank, such implications made by local observers are plausible. Ishayev still wields considerable influence over Khabarovsk residents, and the fact that he made no public statements in support of a large, local bank is cause for concern. It is also clear that, though often a staunch defender of local companies subject to takeover, he chose not to help the company that many believe he holds a personal grudge against.

Gersten